Governance of Non-Profit and Non-Governmental Organizations - Within- and Between- Organization Analyses: An Introduction

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Governance of Non-Profit and Non-Governmental Organizations - Within- and Between-Organization Analyses: An Introduction[1]

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Abstract

Despite the fact that nonprofit organizations play a large role in the production and distribution of goods and services in modern economies, and the rising role of non-governmental organizations in carrying out projects in developing countries, our knowledge of their governance, and of its' implications for their behavior and performance, is limited. This special issue tries to uncover some of the mechanisms and institutions that characterize the governance of non-profits and NGOs, as well as its implications. In particular, the papers focus on: (i) the determinants of NGO governance and its implications for reducing poverty in developing countries, (ii) the governance of non-profit organizations, (iii) the impact of governance characteristics on the performance of non-profit organizations, and (iv) the effect of non-profit governance on the interaction between the non-profit and for-profit sectors.

Nonprofit organizations are in charge of a large share of the production and distribution of goods and services (especially, public goods) in modern economies. Salamon (2010) finds that in the OECD economies, on average 7.5 per cent of economically active population are employed in the nonprofit sector, and in some countries (Belgium, the Netherlands, Ireland, U.K.) this share exceeds 10 per cent.

Recently, one sub-sector of the nonprofit economy - the non-governmental organizations acting as foreign aid (in its public and private forms) intermediaries – have seen spectacular growth, both in their numbers and revenues, as has been documented, for instance, by McCleary and Barro (2008), Werker and Ahmed (2008), and Atkinson et al. (2012).

Despite the high and increasing importance of non-profits and NGOs, our knowledge of their governance, and of its' implications for their behavior, is still quite limited. Closing this gap is ever more important, given that the lack of good measures of performance – because of the particular nature of the goods and services produced in this sector – limits the ability of donors, funding agencies, the government – to monitor the

[1] Some of the works included in this special issue were presented at the workshops held at the University of Rome La Sapienza in March 2013 and at the University of Namur in December 2013 organized by CIRIEC International Scientific Commission Working Group "Organization and Governance in Social Economy Enterprises" as well as at the 4th CIRIEC International Research Conference on Social Economy held in Antwerpen in October 2013. We wish to thank all Working Group participants for their comments and suggestions which greatly helped to increase the quality of the papers. We also greatly thank the Editor of the Journal and all anonymous referees for their invaluable help throughout the preparation of the issue.

management of these organizations. On the other hand, given that often there is a disconnection between the entities that fund the activity of these organizations and their intended beneficiaries and end-users, the power of beneficiaries to monitor these organizations is also quite weak, as has been highlighted by Ebrahim (2003), Bebbington (2005), and Mansuri and Rao (2012).

This special issue tries to uncover some of the mechanisms and institutions that characterize the governance of non-profits and NGOs, as well as its implications. In particular, the papers selected for this special issue consider a well-defined, and interconnected, subset of questions that can be divided in four groups: (i) the determinants of NGO governance and its implications for reducing poverty in developing countries, (ii) the governance of non-profit organizations, (iii) the impact of governance characteristics on the performance of non-profit organizations, and (iv) the effect of non-profit governance on the interaction between the non-profit and for-profit sectors.

The first two papers analyze the implications of certain key characteristics of the governance (donor-induced foundation and community involvement in NGO projects) for improving the welfare of beneficiaries of NGO activities as well as the determinants of the governance of NGOs in developing countries (in particular, in Sub-Saharan Africa). The study by Burger, Dasgupta and Owens concentrates on one key incentive mechanism frequently used by donors towards NGOs: providing financial incentives to involve the community members in NGO projects. Such involvement has often been assumed by the donor community as “good by definition”. This study casts doubt on this belief and argue that the use of such mechanisms might create additional distortions that outweigh the direct benefits. The authors build a simple model of NGOs that differs in terms of altruism of their founders, and show that imposing a community participation subsidy might worsen the beneficiary welfare, because the adverse selection effect (i.e. attracting the less motivated NGOs) outweighs the reduction in the moral hazard effect. The authors characterize the threshold subsidy rate beyond which this result holds and show, using the data from Ugandan NGO sector, that this negative effect is present in reality.

The paper by Navarra and Vallino looks at the relationship between external donors and local village-level NGOs in Senegal and Burkina Faso. They show that the nature of the relationship established with Northern donors drives the governance mechanisms of the village-level NGOs. In general, donor-induced foundation of local NGOs has a negative effect on their performance (measured by misreporting of the number of members, the ability to mobilize members, the perceived benefits from NGO projects by the local population, and the extent of elite capture) in Burkina Faso, but not in Senegal (probably, because of the long tradition and capacity of associative movement in Senegal).

The second group of papers concentrates on the governance of nonprofit organizations, and, in particular, on the between-organization governance relations. The paper by Willems and co-authors analyze the interesting phenomenon of board-of-director linkages between nonprofits, i.e. when directors in boards of a nonprofit organization have additional director positions in other nonprofits. Using the data from 610 Belgian nonprofits, they first document the extent of nonprofit board interlocking and then investigate whether interlocking correlates with similarity between organizations in terms of size, funding structure and operational activities. The paper shows that board networks are not formed at random, and that the clusters of similar organizations, interconnected through their boards, exist within the nonprofit sector.

The paper by Similon focuses on a different set of between-organization governance structures in the nonprofit sector: the coordination mechanisms that arise to curb excessive competition for funds. She compares two most widely used self-regulation systems: the quality certification labels and the joint-fundraising umbrella organizations. The paper analyses their emergence and their functioning using four case studies (one in the Netherlands, one in the U.K., and two in Belgium) and highlights their relative strengths and weaknesses.

The third set of papers analyzes the impact of governance characteristics on the performance of non-profit organizations. The paper by Becchetti and Pisani uses a large sample of Italian social cooperatives (which are, *de facto*, nonprofits) to investigate which are the most relevant factors affecting the performance of these organizations. The authors use the multi-output stochastic frontier estimation method and show that the age of the nonprofit, its innovations leading to new products or customers, the managerial turnover, and the shareholder diversity have a positive effect on the outreach of the organization (measured as the ratio of beneficiaries served over the total amount of labour and capital used by the nonprofit). In addition, the authors show that the numbers of volunteers, the number of contracts signed by the nonprofit during a given time span, as well as the number of meeting of shareholders have a negative impact on the outreach. The study concludes that the crucial aspects affecting the nonprofit effectiveness in providing social services relates to a mix of internal organization and external conditions.

The paper by Estapé-Dubreuil and Torreguitart-Mirada also focuses on the features of nonprofit governance that are likely to affect performance, in a specific sector: that of microfinance institutions (MFIs). Using a dataset of MFIs obtained from 2011 Microfinance Information Exchange (MIX), the authors show that the MFIs having an NGO status exhibit a higher board diversity, are more likely to adhere to fair practices related to human resources, as well as to pay more attention to training in social performance management. Furthermore, they find that microfinance NGOs perform better than for-profit MFIs from the social perspective, i.e. by serving more and poorer clients, and exhibiting more gender equality among borrowers. In addition, the authors find that external governance mechanisms of MFIs have little or no impact on performance, while board characteristics consistently and significantly affect their social performance.

The last paper of the special issue, by Viganò and Salustri, focuses on the effect of non-profit governance on the interaction between non-profit and for-profit sectors. The authors propose a simple microeconomic model describing an economy in which a share of the produced goods and services is actually not exchanged on the market. Since the workers active in the nonprofit sector commonly receive nonmonetary benefits, the nonprofit industry can play several important roles: to lower the monetary costs of labour (by paying the workers a share of wages and dividends in real terms); to reduce the income inequality between employed and unemployed workers; to endow the workers with an alternative source of employment and income.

Overall, taken together, the papers included in this special issue represent well the rising stream of literature on the governance of nonprofit and NGO sectors. We strongly hope that they can provide an additional impulse to the ongoing research agenda on such a fascinating and increasingly relevant topic.

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